

Office of Financial Management



Chart of Accounts Project

Issue Summary

October 20, 2005

Chart of Accounts Project Introduction

This document summarizes issues identified during the data collection phase of the chart of accounts (COA) project. It includes identification of alternative strategies for addressing the issues, and provides recommendations for changes to the chart of accounts structure, policies, or procedures that provide opportunities to strengthen financial reporting, budgetary, and management decision support information.

The core COA team identified the issues and alternatives after a thorough review of the data accumulated during the Internet survey and stakeholder interviews. The issues are presented in the form of questions, as follows:

- Should the state adopt a different funding model for AFRS?
- How can the state modify the COA and/or AFRS system to support accounting by budget activity?
- Should the state establish descriptions for revenue source titles?
- Should the state strengthen policies supporting expenditure recoveries?
- How could the state modify the COA and/or AFRS system to better support agency contract, project, and grant management activities?
- Could the state achieve more complete and accurate enterprise information by mandating the use of more COA elements?

You're encouraged to review the report carefully in light of your current and future business requirements. Let us know if you have concerns with the issues and alternatives listed in this report, or if you have preferred choices. The feedback we receive from you will help shape the final recommendations to executive management.

Chart of Accounts Project Issues

1. Should the state adopt a different funding model for AFRS?

Problem Statement: Some agencies do not use COA elements at the lower, non-mandatory levels of detail due to AFRS costs, contributing to the development and use of internal systems and hindering the collection of enterprise type data.

	Alt. 1 Fund statewide AFRS costs centrally *	Alt. 2 Provide additional funding to the agencies to cover AFRS costs *	Alt. 3 Change the billing for AFRS to a fixed price model *	Alt. 4 Continue with current billing model for AFRS
Description	All AFRS costs statewide are funded centrally in OFM's budget. Agencies are not charged, although the full complement of fund sources may be tapped.	Retain current pricing model. Agencies will receive additional funding to cover increased costs of using more data elements.	A fixed price charge would be assigned to agencies based on budget, size, or some other metric.	The current billing model would continue with a mix of utilization charges (fiche, reports, transactions, payment types).
Is this alternative likely to solve the problem?	Yes. Promotes the enterprise perspective by eliminating the agency incentive to reduce information in order to reduce costs. Removes this barrier for agencies to make full use of the COA.	Maybe. Eliminates agency incentive to reduce information in order to reduce costs. Non-appropriated funds will still be faced with an agency-oriented cost/benefit question. Removes this barrier for agencies to make full use of the COA.	Yes. Reduces the agency incentive to reduce information in order to reduce costs. Not quite as effective as option 1 as system costs still compete with other agency needs. Removes this barrier for agencies to make full use of the COA.	No. Agencies would likely continue current COA usage to avoid higher AFRS charges.

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	Alt. 1 Fund statewide AFRS costs centrally *	Alt. 2 Provide additional funding to the agencies to cover AFRS costs *	Alt. 3 Change the billing for AFRS to a fixed price model *	Alt. 4 Continue with current billing model for AFRS
Benefits	<p>Eliminates the administrative burden of the billing process for AFRS costs.</p> <p>Because agencies are not penalized for capturing more data more agencies would use the COA elements as defined.</p> <p>Reinforces the enterprise perspective.</p> <p>Agency administrative costs decline.</p>	<p>Because some agencies are not penalized for capturing data more agencies would use the COA elements as defined.</p> <p>Agency cost allocation processes would remain the same.</p>	<p>Because system charges are not tied to the volume of data, more agencies would use the COA elements as defined.</p> <p>Agency cost allocation processes would remain the same.</p> <p>Simplifies the billing process for this function.</p>	<p>Agency cost allocation processes would remain the same.</p> <p>Encourages prudent use of resources.</p>
Risks or Consequences	<p>Possible loss of federal revenue resulting from the shift of costs from agency to statewide.</p> <p>Possible loss of local revenue resulting from agency cost allocation processes.</p> <p>Possible negative impact to the general fund.</p>	<p>Continues the billing process.</p> <p>Inaccurate measures of cost-increases result in over/under appropriations.</p> <p>Agency admin costs increase.</p> <p>Some agencies would face increased costs without funding to cover them.</p>	<p>The fixed price paid by an agency may be more or less than current AFRS charges. This could impact federal revenue reimbursements.</p> <p>Agency admin costs may increase / decrease.</p> <p>Agency size budget does not always translate</p>	<p>This barrier to collecting enterprise data and maximizing the value of the chart of accounts remains.</p>

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	Alt. 1 Fund statewide AFRS costs centrally *	Alt. 2 Provide additional funding to the agencies to cover AFRS costs *	Alt. 3 Change the billing for AFRS to a fixed price model *	Alt. 4 Continue with current billing model for AFRS
	<p>Agencies adopt sloppy data habits because they no longer have a price incentive.</p> <p>Overall OFM system costs could increase.</p> <p>May not translate into more COA use, since agencies have already invested in internal systems.</p>	<p>Overall system costs could increase.</p> <p>May not translate into more COA use, since agencies have already invested in internal systems.</p>	<p>into how much they use AFRS (i.e. Higher Education).</p> <p>Some agencies would face increased costs without funding to cover them.</p> <p>Overall system costs could increase.</p> <p>May not translate into more COA use, since agencies have already invested in internal systems.</p>	
Implementation issues	<p>Requires modifications to the statewide cost allocation plan.</p> <p>Requires a study of alternatives for funding approach at the enterprise level to identify the approach that has the least impact on federal funding</p>	<p>Requires agencies estimate changes in transaction volume.</p> <p>Need to estimate potential changes in cost resulting from funding changes.</p> <p>May lead to</p>	<p>Requires developing a new pricing model.</p> <p>Need to estimate potential changes in cost resulting from funding changes.</p> <p>May lead to changes in internal</p>	None.

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	<p>and the state general fund.</p> <p>Need to estimate potential changes in cost resulting from funding changes.</p> <p>May lead to changes in internal systems.</p> <p>Will require OFM to support agencies in transition to better COA utilization.</p>	changes in internal systems.	systems.	

* For purposes of this study, the feedback we received from the stakeholders focused on AFRS rates. However, when evaluating pricing models the state should consider all OFM statewide systems fees in the analysis.

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2. How can the state modify the COA and/or AFRS system to support accounting by budget activity?

Problem Statement: Activities have been used in the budget now for the last two biennial budgets—and have proved their value in that context. However actual expenditures are not recorded by activity at this time, in part because we do not know if this is feasible or worth the cost. Agencies do recast the enacted budget into activities, but this process is labor intensive and often based on estimates and assumptions about actual activity costs.

	Alt. 1 Add a budget activity element to the COA that is entered for every transaction	Alt. 2 Develop a table driven process that automatically assigns an activity code to every transaction based upon agency coding criteria	Alt. 3 Develop a monthly process that automatically recasts summary program data to activity, based upon pre-determined percentages	Alt. 4 Develop a daily process to recast AFRS transactions to activity via an AFRS table and Fastrack reporting
Description	A field that can be entered on the AFRS input screen.	Table driven process that automatically assigns an activity code to a transaction based upon agency coding criteria. Similar to the process used to assign budget units to DSHS transactions.	Table driven process that automatically recasts program data at a summary level to activity based on Agency determined percentages.	Table driven process that recasts transactions to activity for reporting in Fastrack. The data would not be available in AFRS. The original AFRS records would not be modified nor would new records be created. For reporting purposes in Fastrack, the data in the table would be used as a filter to determine what appeared on activity reports.
Is this	Maybe. Would	Yes. Provides	Yes. Reduces	Yes. Provides

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alternative likely to solve the problem?	require fiscal line staff maintain/review a crosswalk table and use judgment and knowledge about the nuances of activities to determine the correct code to use.	real-time data, reduces agency workload, and may increase accuracy of data, even though a table probably cannot discern all activity nuances.	agency workload and provides monthly data to measure progress. Probably not as accurate as options one and two.	real-time data, reduces agency workload, and doesn't require major modifications to AFRS or the AFRS record layout.
Benefits	Provides agencies with a field to begin tracking budget activity data. Provides accounting detail by activity.	Provides agencies with a field to begin tracking budget activity data. Unobtrusive and automated. Good-enough accuracy. Provides daily data. More likely to support complex coding combinations. Less staff time than option 1. Provides accounting detail by activity.	Provides agencies with a tool to begin tracking budget activity data. Unobtrusive and automated. Provides monthly data. More likely to support complex coding combinations. Less granularity in data.	Provides agencies with a tool to begin monitoring budget activity data on a daily basis. Unobtrusive and automated. Does not require major modifications to AFRS or the record layout. Does not impact agency interface files. More likely to support complex coding combinations. Provides accounting

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		Managed by the owners of the process within each agency. No change required for agencies sending interface data to AFRS.		detail by activity without adding additional records to AFRS.
Risks or Consequences	Input accuracy and coding interpretation can lead to skewed information. Increased agency workload. Increases AFRS and DIS storage and transaction costs. Transaction storage would increase because AFRS sorts transactions by common denominator and transaction volume will increase if program coding supports two or more activities.	The table driven process lacks enough sophistication to capture the true cost of the activity. Estimates and assumptions are used to build crosswalk tables. However, transaction storage would increase because AFRS sorts transactions by common denominator and transaction volume will increase if program coding supports two or more activities.	Percentage splits are less accurate and based on estimates and assumptions. Transaction storage may increase if summary records are created during the recast.(See Issue #1) Activity data is only available on a monthly basis.	The table driven process lacks enough sophistication to capture the true cost of the activity. Estimates and assumptions are used to build the crosswalk tables. The data would be available for reporting through Fastrack. Non-Fastrack users may not have access to the data.

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	(See Issue #1)	(See Issue #1)		
Implementation issues	<p>Requires modification to the AFRS record layout.</p> <p>Changes to the AFRS record layout would require agency interface modifications.</p> <p>Alternative 1 and 2 will be the most expensive alternatives. The AFRS input screens, underlying detail record, the posting files and processes, and fastrack database and reports will require change.</p> <p>Initial estimates indicate a need for at least 6+ staff over a two-year period.</p>	Same as Alternative #1.	<p>Requires AFRS system modifications to create percentage tables and process.</p> <p>Requires a separate reporting process, and would limit reporting flexibility since the data would only exist at some pre-defined summary level.</p> <p>Requires the creation of new Fastrack reports.</p> <p>May offer the best performance since the data would exist only at a summary level.</p>	<p>Requires AFRS system modification to create table and Fastrack modifications to support reading the AFRS table and performing the data recast.</p> <p>Options need to be considered for non-Fastrack users obtaining access to the data.</p> <p>Requires testing to measure response time for report generation.</p>
Critical success factors	Use of the field must be cost effective for the	Use of the field must be cost effective the	Requires agencies make assumptions	The Governor and legislature have a

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	<p>agency.</p> <p>The Governor and legislature have a continued interest in activity data.</p> <p>Agency staff understand the criteria for activity cost assignment</p>	<p>agency.</p> <p>The Governor and legislature have a continued interest in activity data.</p> <p>Agencies understand the true cost of activities and can crosswalk program costs to activities.</p>	<p>regarding percentage distributions.</p> <p>Agencies have a tool to automate the recast</p>	<p>continued interest in activity data.</p> <p>Agencies understand the true cost of activities and can crosswalk program costs to activities for the AFRS table.</p>

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3. Should the state establish descriptions for revenue source titles?

Problem Statement: Currently agencies rely on revenue source titles when selecting revenue source codes. For some source codes, the title is descriptive enough that the agency can select the source code with confidence, while other source code titles have similarities that require the agency to exercise judgment, and may result in incorrect source code selections.

Recommendation: In SAAM, provide a description for some or all revenue source codes similar to those now provided for sub objects. This would offer several benefits:

- Promote enterprise consistency.
- Provide for a higher level of precision in source selection.
- May identify codes that can be combined or new codes needed to improve COA functionality.

This proposal would require OFM and agency staff resources to draft and refine descriptions for source codes. This could be mitigated by developing the definitions in phases. Effort would also be required over time to maintain and update the descriptions as needed.

Alternative approaches include:

- Develop more descriptive titles in lieu of full descriptions.
- Forgo any change and continue with the current revenue source titles.

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4. Should the state strengthen policies supporting expenditure recoveries?

Problem Statement: SAAM (85.20.30) currently addresses recoveries of expenditures as non-revenue receipts. These receipts may be recorded within agency financial records using a variety of different coding techniques, depending on the nature of the recovery. For example, inter/intra agency and prior period reimbursements are tracked with an object S, T or the appropriate revenue source code, respectively.

SAAM also requires other types of recoveries to be recovered back to the original line of account coding. This is the approach for recording refunds received from vendors or parties outside state government. It includes amounts recovered for product returns, canceled warrants, insurance premium refunds, and cancelled subscriptions or contracts where the recoveries are for current appropriation allotment charges. If the recovery is for a prior period allotment charge, it should be recorded to the designated revenue source code.

However, for a variety of reasons, certain agencies record event sponsorship donations, training fees and/or charges for goods and services as recoveries of current period expenditures. These types of recoveries are difficult to track in the financial records, can mask the true cost of producing a product or delivering a service, and 'create' spending authority.

	Alt. 1 Modify SAAM to require the use of a unique object of expenditure for recoveries identified in paragraph 3 of the problem statement	Alt. 2 Modify SAAM to require the recoveries identified in paragraph 3 of the problem statement to be recorded with a revenue source code	Alt. 3 Continue with current SAAM guidance
Description	Create a new object of expenditure to be used to record recoveries identified in paragraph 3 of the problem statement.	Require recoveries identified in paragraph 3 of the problem statement to be recorded with a revenue source code.	No change to current SAAM guidance.
Is this alternative likely to solve the problem?	Yes. Promotes enterprise consistency in accounting for these types of transactions.	Yes. Same as Alternative #1.	No.

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	Alt. 1 Modify SAAM to require the use of a unique object of expenditure for recoveries identified in paragraph 3 of the problem statement	Alt. 2 Modify SAAM to require the recoveries identified in paragraph 3 of the problem statement to be recorded with a revenue source code	Alt. 3 Continue with current SAAM guidance
	Provides a coding mechanism for better tracking of recoveries in the accounting records.		
Benefits	<p>Promotes enterprise consistency.</p> <p>Provides a more accurate measure of expenditures and recoveries.</p> <p>Provides visibility to the management of these recoveries.</p> <p>Provides a more accurate measure of the true cost of producing and delivering goods and services.</p>	Same as Alternative #1.	Agencies retain flexibility.
Risks or Consequences	<p>Reduces agency flexibility.</p> <p>Creates spending authority for agencies without review by the legislature.</p>	<p>Reduces agency flexibility.</p> <p>Inaccurate estimates of receipts in the budget process may result in over/under appropriations.</p> <p>Realizing these as revenue reserves for the legislature decisions on their use.</p> <p>May provide a false</p>	Maintains status quo.

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	Alt. 1 Modify SAAM to require the use of a unique object of expenditure for recoveries identified in paragraph 3 of the problem statement	Alt. 2 Modify SAAM to require the recoveries identified in paragraph 3 of the problem statement to be recorded with a revenue source code	Alt. 3 Continue with current SAAM guidance
		impression to the legislature that revenues are discretionary when in fact they wouldn't exist if the service were not provided.	
Implementation issues	Requires a SAAM review and update, including agency training.	Requires a SAAM review and update, including agency training. Increases need for spending authority. Requires agencies to estimate level of activity and recoveries to support budget requests.	
Critical success factors	Agencies have clear guidance defining how all types of recoveries should be recorded. Recoveries are clearly tracked in the financial records.	Same as Alternative #1	

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5. How could the state modify the COA and/or AFRS system to better support agency contract, project, and grant management activities?

Problem Statement: Throughout the Internet survey and stakeholder interviews, respondents requested additional COA elements to support contract, project and grant management activities. Reasons for these requests varied widely and ranged from a desire to view federal expenditures and revenue at a finer level of detail than what is currently mandated, to adding a contract field to facilitate tracking payments and receipts for Interagency Agreements.

From our analysis, we know business requirements for these activities vary from agency to agency. These requirements dictate how an agency uses these fields and whether or not the agency relies on internal systems for additional business functionality or management information. We also know the AFRS record layout includes a small amount of vacant space that could be used to collect information related to contract, grant, or project management activities. However, at this time, we do not have clearly defined information objectives and agency requirements for these business processes.

Recommendation: OFM is partnering with stakeholders on a number of initiatives to identify common business problems, policy issues, and recommendations that will influence future contract, project, and grant management processes in the state. Those initiatives include, an Inventory and Evaluation of the State's Public Infrastructure Programs and Funds, Roadmap Enterprise Business Modeling, and a joint agency proposal for funding to develop an Enterprise Grant and Contract Management System.

We recommend the state forgo making any changes to AFRS or the COA in support of contract, grant, project business processes while these initiatives are underway. This would offer several benefits:

- Provide multiple opportunities to identify new policy as appropriate.
- Support reaching a consensus on future best practices.
- Validate whether new COA elements are truly needed.
- Provide a better understanding of the urgency and severity of agency business needs.

The time frame for completion of these initiatives range from 2 to 18 months, and additional time beyond that to finalize best practices, policy revisions and possible COA changes. In the end, it is possible that not all needs will be met.

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6. Could the state achieve more complete and accurate enterprise information by mandating the use of more COA elements?

Problem Statement: A number of stakeholder respondents stated inconsistent use of agency-defined codes contributed to reduced comparability between programs and agencies, and was a weakness in the current chart of accounts design. For example, agencies have discretion in assigning agency-defined codes for information technology purchases in addition to the mandated statewide codes. As a result, it is difficult to obtain an enterprise-level view of the different categories of technology purchases because the agency-defined codes vary. Similarly, there are no enterprise level administrative cost designations within the COA.

Certain stakeholders would like to see better integration of the state's chart of accounts with the BARS (Budgetary, Accounting, and Reporting System) chart of accounts used by local government. Because the state's current chart of accounts does not facilitate the identification of state support to local governments, it is difficult to:

- Determine the level of state support to local governments.
- Aggregate the total public spend at the state and local level.

Even when stakeholders talked about the benefits of more enterprise-level data, they did so with a caution about losing too much agency flexibility for defining data elements. This flexibility is considered key for agencies to meet their many management and reporting requirements. Also, many agency systems and processes rely on current chart of account coding. Mandating more elements of the chart of accounts could require some agencies to have to modify these processes.

Recommendation: In order to justify mandating additional COA elements, the state should have clearly defined information objectives and an on-going enterprise need for the information. With limited exceptions, this study revealed that most requests for chart of account elements were agency unique rather than enterprise focused. Mandating new statewide codes will provide the most utility if those elements support on-going statewide decision support, financial accountability, and GAAP reporting needs.

We recommend the state consider:

- Analyzing the impact and cost of mandating new sub object or sub sub object codes to support the SmartBuy program.

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The SmartBuy program administered by the Department of General Administration is concerned that existing purchasing and payment practices make it difficult to measure the volume of purchases by type of good, vendor, and contract authority and thus achieve savings by leveraging the state's purchase power. While a longer-term solution may well be to implement an enterprise procure-to-pay system to collect this information, a possible short term approach might be to identify and define the new cost categories and then create a series of sub-objects or sub-sub-objects that would be used by all agencies to record purchases made through the SmartBuy program. While this kind of short-term solution may enable the state to collect some needed data, it would take some time to implement, it may prove costly for some agencies to change related systems and process, and it won't address the underlying problems with the procure to pay business cycle, identified during the Roadmap urgent needs analysis.

- Continue with all other mandated codes until clearly defined objectives and on-going enterprise needs are defined.

We recommend retaining current data requirements at this time while other statewide business analysis initiatives are underway (e.g. Roadmap Enterprise Business Modeling, etc.) Once those efforts are complete we will have a more comprehensive understanding of the urgency and severity of agency business needs, cost and effort required to mandate new coding elements, new policy opportunities, future best practices, and enterprise data requirements.

Chart of Accounts Project Next Steps

We invite you to review and comment on the data contained in this report. Do you agree with the issues or do you have concerns? Do you have preferences between the various alternatives? Are there other issues or alternatives we should consider? Please send your observations and comments to the following email address: OFMCOA.ofm.wa.gov.

During the next couple of weeks, we will review, summarize your responses and incorporate them into the final document that will be submitted to executive management. If you have any questions, please contact Debbie Hoxit at (360) 902-0582 or Scott Kibler at (360) 664-7674, or by email at OFM.COA.ofm.wa.gov.

Chart of Accounts Project Project Background

The Office of Financial Management (OFM) establishes the structure and the mandatory statewide codes of the state's chart of accounts. The current chart of accounts structure has been in place since the Agency Financial Reporting System (AFRS) was implemented in 1982.

During the last couple of years, the state has undertaken a number of major initiatives, including Civil Service Reform, Roadmap for Financial and Administrative Systems, Priorities of Government, and Government Management, Accountability and Performance. These initiatives focus on improving management systems, streamlining business processes and policies and strengthening service delivery and accountability both within state agencies and across state government. In light of the impact of these initiatives, we felt a need to reassess the design of the state's chart of accounts. Through the Chart of Accounts Project (CAP), OFM is reviewing how state agencies use the chart of accounts. This project focuses on understanding the strengths and weaknesses of the current chart of accounts and developing recommendations for a chart of accounts that satisfies GAAP, budgetary, and management decision support requirements. A detailed description of project objectives can be viewed in the project charter on the CAP website ([Chart of Accounts - Project Charter](#)).

The CAP workgroup consists of a core OFM team (5) and a virtual project team (322+) consisting of budget and accounting line staff, managers and directors from across the state.

The CAP is collecting data through three different processes: on-line survey, stakeholder interviews, and other state interviews. As data is collected and conclusions drawn, the information is being presented to the virtual project team for review and feedback. A detailed description of the project work plan, timeline, and deliverables can be viewed on the CAP website ([Chart of Accounts - Project Work Plan](#)).